

THE EMPLOYMENT SITUATION: OCTOBER 2001

HEARING

before the

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED SEVENTH CONGRESS

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THE EMPLOYMENT SITUATION: OCTOBER 2001

Friday, November 2, 2001

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
WASHINGTON, D.C.

The Committee met, pursuant to notice, at 9:35 a.m., in Room 2360, Rayburn House Office Building, Honorable Jim Saxton, Chairman of the Committee, presiding.

Present: Representative Saxton. Senators Reed, Bennett and Corzine.

Staff Present: Chris Frenze, Bob Keleher, Darryl Evans, Colleen J. Healy, Brian Higginbotham, Pat Ruggles, Daphne Clones-Federling, Matthew Salomon, and Russell Comeau.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

Representative Saxton. Good morning. I would like to welcome Acting Commissioner Orr before the Joint Economic Committee (JEC) to testify on the unemployment situation.

The employment data released today are the first to reflect the effects of the September 11 terrorist attacks. Payroll employment declined by 415,000, with job losses posted throughout the private sector. The factory employment declined for the 15th month in a row. According to the separate household survey, the unemployed rate increased by half a percentage point, to 5.4 percent.

The economic effects of the events of September 11 will aggravate an already weak economic situation. Although the resilience of the American people and the economy has been very encouraging, the attacks have taken their toll, deepening the slowdown. A variety of economic statistics confirm that the economic slowdown that began in the middle of 2000 continues.

Earlier this week, the Commerce Department reported that gross domestic product (GDP) declined slightly in the third quarter of 2001. This shrinkage of the economy is a matter of concern even if the decline was less than many economists had expected. A review of GDP accounts show that in recent orders the fall of investment has been a major negative force on the economy, a fact that policymakers should consider in addressing the need for economic stimulus. The GDP report confirms the weakness apparent in most other economic data.

As I pointed out in September, one result of the terrorist attacks will be the new spending on security. That will not increase the quality or quantity of production. Firms have to increase spending on security personnel, sophisticated security equipment, fortification of buildings and facilities and other related expenditures.

These new expenses will have economic effects similar to the imposition of something that I call a “security tax” on an already vulnerable economy. The logical policy response is for changes in tax policy that address this problem with offsetting tax reductions. For example, faster write-offs for security and other investments would offset at least some of the new security expenses and also address the bias in the income tax system against investment.

Let me just pause from my prepared remarks to say that over the last decade or more some have been puzzled by the resilience and the length of the period of economic growth that we experienced; and as we searched for the underlying reasons that produced that positive long period of time of economic growth, one of the factors that we identified was the increased productivity of the American workforce because of increases in the use of new technologies.

To continue to invest in those new technologies presumably would have a similar effect going forward. However, to divert resources from the use of new technologies and the acquisition of new technologies to expenditures for security reasons does not have the same effect as those kinds of investments that we have made during the last two decades or more.

So this is a matter of some concern, and it prompted me to ask our staff to prepare a report that addresses these issues, which we will have on our JEC website by the close of business today. And for those of you who have not accessed our website, the address is www.house.gov/jec. [The report, *Tax Policy for Economic Growth*, is available online at <http://www.house.gov/jec/growth.pdf>.]

As Chairman Greenspan recently suggested before this Committee, tax incentives for capital investment are among the most effective forms of fiscal stimulus. Short-term temporary tax relief will not be effective because taxpayers know that it is not permanent. It is not a permanent improvement to their incomes. Effective tax stimulus would improve incentives to work, incentives to save and invest by reducing tax penalties on these activities. Some measure of tax relief is needed for individuals and firms burdened by the uncertainty and expenses of the new security situation.

It is simply my view that the weakness in business and consumer spending can be best addressed through monetary policy. An aggressive cut in the Federal funds rate by the Federal Reserve this coming Tuesday is the best policy action that could be taken to bolster the demand side of the economy over the short term.

Commissioner, thank you for being here; and we will turn it now to the Vice Chairman, Senator Jack Reed.

[The prepared statement of Representative Saxton appears in the Submissions for the Record on page 19.]

OPENING STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Senator Reed. Thank you very much, Mr. Chairman, and thank you, Acting Commissioner Orr, for coming to testify before us today.

The Bureau of Labor Statistics' (BLS) measures of employment and job losses for October will help us to understand how the economy is currently performing. Economic conditions appear to be deteriorating. Earlier this week, we learned that gross domestic product fell 0.4 percent during the third quarter. Yesterday, we learned that private wages and salary fell again in September, the second monthly decline in a row.

Factory operating rates are at their lowest levels in two decades, and today you report that unemployment has risen to 5.4 percent. Help is needed.

We must craft a fiscal stimulus package that can spur the economy into recovery quickly while not undermining fiscal discipline over the long run.

History has shown that the key to achieving a rapid recovery is to bolster family incomes, something that the stimulus package passed by the House is unlikely to achieve. Indeed, I can't see many of the package's aspects even increasing investment.

Marginal incentives for businesses that boost their capital spending will mean little to the economy when cash-strapped households cut their spending, causing further curtailments in investment. Instead, we should direct the stimulus towards those Americans who are most vulnerable to the economic slowdown.

We should help lower-income working Americans who pay payroll taxes yet received no rebate earlier this year. We should broaden unemployment insurance coverage so that almost all of those who lost jobs can get help and increase benefits so that people receive enough to cover their basic needs. And we should help the newly unemployed keep their health insurance by subsidizing premiums.

The foundations of our economy are strong, and our people and businesses resilient. Decline in GDP was less than expected. In order to shore up the economy's weaknesses we need policies that are temporary, immediate and targeted to those people and businesses which will best spark our economy's engine.

I look forward to hearing your detailed report, Acting Commissioner Orr, on the employment statistics.

[The prepared statement of Senator Reed appears in the Submissions for the Record on page 21.]

Representative Saxton. Senator Reed, thank you very much.

We usually just limit this to two opening statements. Senator Corzine is here, and we have the luxury of offering you the opportunity to say whatever, Senator.

Senator Corzine. Well, if I might.

Welcome. I welcome the Acting Commissioner and am pleased to see you, and I appreciate the Chairman holding this hearing.

The numbers that you will talk to us about this morning really are quite stark and I think confirm what many in the economy recognize as a period of rather severe deterioration and economic performance.

Like both the Chairman and my colleague, Senator Reed, I certainly argue for a very forceful and quick stimulus program that addresses the needs of our economy. I think there are issues that I would like to hear you talk about on how we get people back to work. I look forward to this discussion, and I think it is imperative, given that our economic needs have been dramatically exposed by the events of today's announcement.

Thank you.

Representative Saxton. Thank you, Senator.

Commissioner, the floor is yours. Thank you for being with us.

**OPENING STATEMENT OF LOIS ORR, ACTING
COMMISSIONER, BUREAU OF LABOR STATISTICS:
ACCOMPANIED BY KENNETH V. DALTON, ASSOCIATE
COMMISSIONER, OFFICE OF PRICES AND LIVING CONDITIONS;
AND PHILIP L. RONES, ASSISTANT COMMISSIONER OF
CURRENT EMPLOYMENT ANALYSIS**

Ms. Orr. Thank you, Mr. Chairman and Members of the Committee. I appreciate the opportunity to comment today on the October labor market data that we released earlier this morning.

As you know, payroll employment dropped sharply over the month in a wide range of industries. The unemployment rate climbed to 5.4 percent in October, the highest rate in nearly five years. Unlike the September data we released in early October, these changes include at least some of the immediate impacts of the events of September 11. I would like to note, however, that the attacks' impact cannot be separated from some of the other influences on the job market today.

The decline in total nonfarm payroll employment was 415,000 in October, an unusually large single-month drop. As you may recall, this followed a very sizable decline of 213,000 in September, which was preceded by a decline of roughly 50,000 the prior month. Since its recent peak in March, nonfarm employment has fallen by nearly 900,000. Private sector job losses have been even greater. That is, 1.2 million over the very same period.

In October, nearly every industry division had a substantial decline in employment. Job losses in manufacturing continued to be heavy and widespread, totalling 142,000 in October. Although factory employment has been in decline for some time, since March alone it has fallen by more than 800,000.

Since manufacturing employment's peak in April of 1998, its employment is down 1.6 million. In services, which is perhaps what is most striking in the report today, employment fell by 111,000 in October, the fourth and I might add largest decline this year in an industry that had

only one other monthly decline since May of 1991. Particularly large job losses occurred in the health supply industry and hotels, 107,000 and 46,000, respectively.

Health supply employment, which was at its peak about a year ago, is now roughly half a million persons lower in total employment.

About a year ago, we had three and a half million people working in the temporary help industry, and today it is three million. Employment in the temporary help industry has declined monthly for the past 13 months.

Employment in the hotel industry has declined since the beginning of this year by approximately a hundred thousand. Half of that loss occurred between September and October.

In the transportation industry, air transportation and transportation services, and I would say transportation services, mainly travel agencies, employment dropped by 42,000 in air transportation scheduled airlines and 11,000 in the travel agencies or transportation service. As with hotels, these large declines were undoubtedly related to cutbacks in travel since September 11.

I will go on with the story. It doesn't get any better.

Retail trade posted its second large job loss in a row as weakness continued in eating and drinking places. For the past three months, we have had major declines in eating and drinking establishments, so that just in the period from August to the present employment in that industry is 115,000 less than it was three months ago.

In addition, in retail trade we would expect at this time for some holiday hiring to begin boosting employment, but that has failed to happen at the rate that we would expect it to occur and in particular I would note in apparel stores and in some of the miscellaneous retailers like toy shops and the gift shops. That holiday hiring we haven't seen as yet.

Elsewhere, employment in construction and in wholesale trade also fell over the month. There have been several very modest declines in construction so far in this calendar year, and construction employment continues to be higher than it was a year ago, in fact 74,000 workers higher.

Wholesale trade, especially reflecting the decline in output and durable goods industry, also is declining, and that is approximately a hundred thousand over the past year.

I could note that there are a few industries that have added jobs in October. That includes health services, which added roughly 15,000 employees, private education, a modest increase in mortgage banking, guard services, noting what you were commenting about earlier, and some of the social services.

Then I would like to note some of our data from our household survey. As I mentioned earlier, the unemployment rate is up half a percentage point to 5.4 percent. That is the highest jobless rate since late 1996.

The number of unemployed in October grew by more than 700,000, and most of that increase in unemployment reflects persons who had lost jobs as opposed to those who had left jobs voluntarily or who have been out of the labor force and were reentering. Weak labor market conditions were pervasive, but increases in jobless rates were particularly severe for blue collar workers.

I note that unemployment rates for virtually all categories of workers, be it by occupation, race, gender, education, increased between September and October.

Civilian employment as we measure it by our household survey fell by about 600,000, and the proportion of the population with a job in October declined to 63.3 percent. The number of part-time workers who would have preferred to work full time increased sharply for the second consecutive month, rising from 3.3 million persons in August to 4.5 million in October. This two month increase was concentrated among workers whose hours were reduced because of slack work or unforeseeable business conditions.

In summary, employment in almost all major nonfarm industry groups fell in October. Total job loss was 415,000. The unemployment rate rose by half a percent.

My colleagues and I would now be glad to answer your questions. Thank you.

[The prepared statement of Acting Commissioner Orr, together with the accompanying Press Release No. 01-397, appear in the Submissions for the Record on page 22.]

Representative Saxton. Commissioner, thank you very much for a very concise statement.

In preparing to come here today, and we got a look at these numbers earlier this morning, we looked back to see when was the last time we had the decrease in employment to this extent, and we believe it was in 1980. Does that sound right?

Ms. Orr. That sounds exactly right.

Representative Saxton. So it has been the better part of 21 years since we have seen this kind of a decline in employment, which is obviously cause for concern.

Commissioner, I want to emphasize the effects of the terrorist strike. That would be a good thing to do. But it is also a good thing to do to understand that, as you pointed out in your statement, there are other factors that are at play here, and we need to understand those as well. For example, this trend that has ended up in exhibiting this large employment loss started more than a year ago, didn't it? Would you explain to us when this trend and decline actually started?

Ms. Orr. Well, we reached our peak in nonfarm payroll employment in March of this year. But, prior to that time, there were a number of points along the way where there were declines.

As I noted earlier, employment reached its peak in manufacturing in 1998; and between 1998 and 2000, roughly a year ago, there were some declines that were not nearly of the order that we have seen more recently.

Representative Saxton. Commissioner, let me refer – you just spoke about loss of manufacturing jobs. We have a chart here which shows that a very significant decline in the growth of manufacturing jobs began in the middle of 2000, perhaps around the July time frame. Is that correct? [Chart 1 entitled “All Employees: Manufacturing” appears in the Submissions for the Record on page 47.]

Ms. Orr. Right, with some decline between 1998 and 2000.

Also, as it shows on the chart—

Representative Saxton. That trend had nothing to do with the September strike. The numbers – that trend that we show on this chart has nothing to do with September 11, right?

Ms. Orr. We have also seen a similar decline starting roughly the same point in 2000 in temporary help. We have now experienced a decline in temporary help every month for the past 13 months.

Representative Saxton. We can say the same thing about GDP growth. The rate of growth declined over that period of time.

We have another chart I believe that demonstrates what happened in terms of the rate of GDP growth, again, beginning in the second quarter of 2000, which was fairly robust, and then by the third and fourth quarters of 2000 the rate of GDP growth had declined significantly and has continued the same trend. So it is important to put the events of 9-11 in this perspective so that we don't come to the conclusion that what we see here in terms of the 415,000 job loss totally is a result of the events of September 11.

[Chart 2 entitled “Gross Domestic Product” appears in the Submissions for the Record on page 48.]

What are the most important aspects of today's employment data that do provide the information about the effects of the terrorist strike?

Ms. Orr. Certainly a large number of the industries that all of us have come to feel were impacted and had reports from various industry spokespersons have pretty much been in the travel-related arena, so that air transportation, the travel agents, hotels, some question about eating and drinking places – because there has certainly been a large decline there. The decline, of what that is related to, it will be very difficult to say.

Auto services and in particular rental cars, parking fees, those kinds of expenditures, those kinds of activities are ones which we say are a surprise that we would like to take a look at, can take a look at and say to what extent do they account for some of the change since September 11.

I put together a table for myself in which I looked at the employment change between September and October in these industries and then compared that change to the average monthly change in those industries of the prior three months.

So, for example, in air transportation, a 42,000 employment decline between September and October. During the July through September period, the monthly decline has been 5,000.

Similarly, transportation services – again these are mainly the travel agencies – declined 11,000 for September to October, and in the prior three months the average monthly change was a 2,000 decline.

Hotels had an employment decline of 46,000 between September and October; and during the prior three months, the monthly average was a 5,000 decline.

Auto services declined 13,000 between September and October; in the previous three months the change had been an increase of 1,000 each month.

Then of course, the guard services, I have here, is a contrasting industry. In the period July through September, it experienced no net change in employment whatsoever. It was actually up from August to September and then up 22,000 between September and October, just as you had indicated that we would expect to see in selected industries some changes.

Representative Saxton. Commissioner, how much of October's unemployment decline related to results from the terrorist attacks? Can you give us any idea about that?

Ms. Orr. That is as close as I get in terms of describing the numbers in September to October and then taking a look at what has been happening in the several months, and even then we can't completely disentangle the influence of market issues in general and the terrorist attack. But it is clear that in these industries there were substantial changes in employment. Substantial declines remain with magnitudes that weren't consistent with recent patterns.

Representative Saxton. Are there any sectors of the economy that you might expect to see expand as a result of the events of September 11?

Ms. Orr. Security, as you and I have both said. I suppose that there are those who would say we might want to look at some of the defense-related industries, you know, over the longer haul.

I have several of my staff here with me. Do any of you have any help for me here?

Representative Saxton. You have certainly put your fingers on the two areas that we would expect to see growth, certainly in security. As we walk across our campus here we saw the results of this very clearly, and as well – as I watched *Fox News*, I guess it was this morning, report on warnings relative to various facilities across the country – bridges this week – obviously, there are additional costs and expenditures in growth in areas of security along those lines.

Again, I think this is something that we are going to have to deal with in terms of understanding the effects of large expenditures or significant expenditures on security issues and how transferring our resources from productive uses in terms of the economy to security uses – not that we shouldn't do the security. Obviously, that is an important set of

expenditures where we are going to have to divert some resources. But, at the same time, we also need to understand that there is an economic effect related to the division of those resources.

For those who may be interested and who were not here when I announced it earlier, by the end of the day today we will have posted on our Joint Economic Committee website a report entitled *Tax Policy for Economic Growth* that takes into account the diversion of resources from more economically productive expenditures to these security expenditures. The report can be downloaded from our website at <www.house.gov/jec/growth.pdf>.

So, with that, let me turn to Senator Reed for whatever comments he may have.

Senator Reed. Thank you, Mr. Chairman.

Thank you, Commissioner, for your testimony and for your responses to our questions.

You indicated in your testimony that increases in jobless rates were particularly severe for blue collar workers. Can you expand on that? And you also might indicate what these workers typically earn.

Ms. Orr. I am sorry?

Senator Reed. What they typically earn. What are the typical wages that you mentioned for these blue collar workers?

Ms. Orr. Well, I think part of the reason for the sharp decline in employment or the increased unemployment for blue collar workers is that many of those workers are in our factories, are in manufacturing where we have seen a substantial amount of job loss, as I mentioned 1.6 million over the past two and a half years.

Phil, did you have – rather than train me in front of you all, you can just go ahead and do it.

Representative Saxton. We are always pleased to hear from Mr. Rones.

Mr. Rones. Thank you. I am pleased to be here.

But this is a month where none of us are bringing you particularly good news.

We have a quarterly news release that we put out on weekly earnings for different groups, including occupational groups. Just as an example, if you look at the two main categories of blue collar workers, one would be – and I use these terms loosely here, because it is not the classification system – one would be more skilled workers. One would be somewhat less skilled. The more skilled is precision production, craft and repair. The most recent median weekly earnings for the third quarter is \$627 a week. For the less skilled, what we call operators, fabricators, laborers, \$475.

Just as comparison, if you look at professional and managerial, which is the top category, that is \$867. There are a wide range of different types of jobs in what we call blue collar. Some of them are fairly skilled and

fairly well paid. Some of them are the most basic labor jobs at the low end of the wage spectrum.

Senator Reed. So it appears from the numbers that you are reporting today, that the brunt of this job loss is being borne by relatively low-paid workers; is that fair to say?

Mr. Rones. What we have seen recently is that while there have been losses in employment across the whole wage spectrum in recent years, and it is probably the case even in recent months, probably the hardest hit is the group in the middle, and many of the factory types of workers that we have talked about already in the hearing today, many of those are in the middle-income group.

Senator Reed. The other group that also appears to be affected adversely is minority employment. I think the numbers that you are releasing today suggest that black unemployment rose a full percentage point, 8.7 to 9.7 percent. That is higher than the overall unemployment rate has risen.

Ms. Orr. Yes.

Senator Reed. And so in the minority communities this is becoming particularly difficult to bear. Is that a fair statement, Commissioner?

Ms. Orr. Yes.

Senator Reed. One other issue that you raised, among many, was regarding the retail sector. You also seemed to suggest that, at this point, Christmas doesn't look to be a joyful experience from the economic perspective. Are you anticipating, because we have not seen the traditional hiring of seasonal workers, that we are going to have a very difficult Christmas period for retail?

Ms. Orr. Well, let me say I hope not. On the other hand, we simply have not seen a lot of the holiday employment buildup that we had seen in many other years.

Mr. Rones. Right. Obviously, we don't anticipate – we are very good with the things we know. But as Commissioner Orr said earlier, there are parts of retail trade where we normally expect to see seasonal hiring begin in September, more so in October, and they would continue to build through the season. And some of them – department stores, for instance – this month were pretty much on track with seasonal hiring, but some of the smaller stores, the apparel stores, things like sporting goods, toy stores, gift shops, those type of things, we really haven't seen the seasonal hiring that we typically get. What that means for next month, I think part of that depends on the psychology of the consumer between now and next month.

Senator Reed. Well, I think that is exactly right.

And the question is, what we can do within the next few weeks to improve the psychology of the consumer? Again, I think a panoply of incentives for business is not as good as putting more money into the hands of the people who are losing their jobs, their health care, and looking forward to the next several weeks of a very, very bleak economic

situation. That is what the consumer confidence of most anyone. That is a challenge that we have to face in the next several weeks.

There is another issue that you raised with respect to part-time workers. Within your report the last month the Bureau reported that the number of workers who can only find part-time work because of economic conditions increased by more than three-quarters of a million people, up by 25 percent. Can you tell me what happened in October to that category of individuals?

Ms. Orr. That category of individuals increased so that we now, between the two months, have moved from 3.3 million to 4.5 million. So those numbers have definitely increased.

Senator Reed. And for my edification are those numbers included within the formal unemployment numbers?

Ms. Orr. They are not in our formal unemployment data that we announced today. Persons who are working part time involuntarily or for economic reasons are not part of the measurement of unemployment. We do have a wide range of unemployment estimates that we produce regularly, but the one we regularly cite is this one.

Senator Reed. So let me understand. The number you cited, the 5.4 percent, is a huge increase in and of itself, but it—

Ms. Orr. Yes.

Senator Reed. But parallel with that is another huge increase in those people who are looking for part-time work.

Ms. Orr. Those persons that are looking for full-time work. That number includes people that are looking for full-time work, and those persons who perhaps were working full time and had their hours cut because of slack business conditions or for some other economic reasons.

Do you want to add anything to that?

Mr. Rones. One of our alternative measures, labor underutilization, does include the workers that you are talking about, those who are working less than full time, but who want to work full time.

Senator Reed. Do you have a measure of how that number has changed in the last few weeks?

Mr. Rones. Some of the components that are not part of the official measurement we don't seasonally adjust or we don't have available on a monthly basis, but if you look at the September figure, which is the most recent figure that we have, that includes everything. If you add total unemployed, plus the group that you talked about, the part time for economic reasons, plus the marginally attached, those are people who say that they wanted a job and have looked in the past year, but are not looking now, the rate was 8.3 percent.

This is not seasonally adjusted, again, because all of the components are not seasonally adjusted. You compare that to the official unemployment rate last month, not seasonally adjusted, which was 4.7 percent. So it added 3.6 percent points to the official rate.

Senator Reed. You would assume that if the numbers were comparable today, that we would have a higher number in that larger category obviously?

Mr. Rones. Yes. In fact, with the increase in part-time economic as well as unemployment, there may be a little bit of a spread.

Senator Reed. So a higher spread between the two numbers. Thank you very much.

Representative Saxton. Thank you, Senator Reed.

Senator Bennett.

Senator Bennett. Thank you very much, Mr. Chairman. And I appreciate your panel being here.

I wanted to focus on a few other aspects of the economy, primarily looking forward. I always say that the only time you will know that the recession is over is when every single forecaster and expert unanimously concludes that we are in the trough from which we will never recover.

The same is also true – the example that we should have known that this was coming was when during the 2000 campaign we were told America was in the very best possible times, and this was going to go on forever.

There is a *Business Week* test that somebody applies that says as soon as your picture appears on the cover of *Business Week* as the businessman or woman of the year, your company is doomed because the recognition you get at that point.

On that basis I am a little concerned to read the forecasters coming out of Wall Street as these numbers came up as news last week, came up on the GDP, where it says the GDP going down by only four tenths of one percent, they expected much more, indicates that perhaps we are going to get through this recession with much less damage than they had previously thought.

That consensus tells me that we are nowhere near the bottom, and it is only when they are all in full agreement that things are never going to get better that they will start to turn around.

With that very unscientific but, unfortunately, historically accurate analysis, I wanted to talk about how long this is going to last. In historic terms this is a relatively mild recession, 5.4 percent unemployment, horrific as it is, coming in a half point increase in a single month is still below historic norms for major recessions. I am old enough to remember the recessions in 1958, 1959, that had unemployment figures in double digits. The last recession which economists look back on and say was relatively mild by historic terms had unemployment figures at 7.5 percent. So we are still well below that.

You look at the last recession, which again was considered to be relatively mild, to start off the first quarter of that recession with only four tenths of one percent of negative growth is relatively mild.

My own instinct tells me, however, that this one, however relatively mild it might be in terms of its downturn, is going to be historically long;

that it is going to take us longer to get out of this than we have gotten out of some others. I just throw that out, would like your – your sense of smell about this.

Get away from the numbers for just a minute. I know you live with the numbers, and the numbers are the safe things to cling to, but all of us as politicians have had consultants who gave us poll numbers that were very safe to cling to, and our own sense of smell out on the campaign trail told us that is not what is really happening. You live in this world all of the time. I am not going to hold you to any forecasts. I'm not going to quote your words back to you. I just wanted to take advantage of your being here and say, let's kind of look up from the page for a minute, look around, and ask ourselves how long is this going to last.

Any reaction? Anybody willing to take that one on?

Ms. Orr. Well, I am willing to speak up and say that the traditional thing that the BLS Commissioners say is we are in the business of measuring what is going on. We are not in the business of doing policy analysis or making predictions.

That said, I would just say that in terms of my experience in the Bureau and looking at the data that we have, that one of the things that strikes me is that there is a lot of convergence of the data. We don't seem to have much in the way of anomalies. Our household survey and our establishment survey together suggest that our measurements are quite good, and they are telling us real serious things.

Senator Bennett. Anybody else want to take a shot at that?

Well, let me go on a little further. Again, I have a sense that part of this recession, part of the cause of this recession is overcapacity. And, yes, it is nice if we can get money in the hands of customers to buy things, and presumably they take goods. But if you look around the world, and we live in the world economy, we have substantial overcapacity in steel production. I don't think there is a steel mill anywhere in the world that is making satisfactory profits. And every one of them is shaky because worldwide we have got maybe 25 or 30 percent overcapacity, and they are all new steel mills. The traditional economic circumstances where the old and inefficient get forced out, everybody invested in steel mills around the world, and we have significant overcapacity, and until somebody really goes broke, or until the demand for steel absolutely astounds us, goes through the roof so we can soak up that capacity, I think that we are in for a very long period of time.

I remember, because I was a lessor at the time, real estate in New York City – Manhattan – suddenly had enough buildings come on the market simultaneously that they had an overwhelming glut of available office space, and all of a sudden you could buy office space in New York City for less than you could buy it, say, in Salt Lake City. And it took years for the demand to finally catch up and fill those offices. Now finally it did. But there were a number of very significant real estate developers in New York who went bankrupt and stayed bankrupt for a long period of time.

We can apply that to this economy. That is the concern that I have, where in historic terms doing fairly well, even as we get the gloomy news you have given us this morning, because other recessions have been significantly deeper than this one appears to be. But if this one drags on for 18 months, or 24 months, or 36 months, then we are where the Japanese are, and of course theirs has gone on for 10 years now. I don't want to get into that.

Well, thank you for your statistics. I understand your position, and I will still continue to wonder how long this thing is going to go.

Thank you, Mr. Chairman.

Representative Saxton. Thank you, Senator.

Senator Corzine.

Senator Corzine. Thank you, Mr. Chairman.

I want to pursue a line a little bit about where is the need, since I think we as policymakers will be addressing a desire to find a stimulus package that has the most power, the most efficiency.

I would love to hear your comments a little more on the minority breaks that we saw, very substantial increase in both black and Hispanic unemployment, this blue collar effort, and then the – the nature of income of some of these declines in hotel – for the participants in the hotel and health service that you were talking about.

I understand the manufacturing blue collar jobs that you are talking about may be more moderate income, but certainly not hotel workers and health services don't tend to be the highest-income jobs. Certainly 16- to 25-year-olds don't tend to have the highest-income jobs.

Would you comment a little bit about those various categories and whether they are – I am reading them right, that the 16 to 25, minorities, and a number of the services have seen substantial increases in unemployment as reflected in these statistics? Aren't these the people that if they are hurting most benefited least from the expansion?

Mr. Rones. The first thing I would say is to really repeat what we had said before is that when we look at the data in recent months, particularly October, the increases in unemployment are really across the board, even among the best educated. We see increases in the unemployment rates for the top socioeconomic types of occupations.

Senator Corzine. Just on that point I see the college rate went from 2.4 to 2.7. That is slightly different going from 8.7 to 9.7.

Mr. Rones. Exactly. If you look at it from the occupational side, we see almost the exact same thing. The managers and professionals, which are clearly college-educated, go from 2.4 to 2.7. At the same time, the technical, sales, and administrative support, more of the middle-income types of white collar occupations, rose from 4.3 to 4.7. At the other end, the less skilled blue collar workers that we talked about before have higher rates and, at least this month, a larger increase: from 7.5 to 8.7 percent.

Senator Corzine. It does look like a substantial difference. I don't know whether it is statistically significant in the samples that you are taking. I asked that question because when we structure a so-called stimulus package for potential a – a severe recession, since I think we are in the trend as opposed to a – saying that we are – we can reflect the nature of the recession, particularly by the statistics released today, it is hard to understand how we cannot focus on those that seem to be suffering the most in this process.

Do you have data on the discouraged workers, people that have dropped out, stayed out, but – I have trouble finding it in the statistics for this month.

Ms. Orr. We had in our press release, page three, persons not in the labor force. About 1.4 million persons were marginally attached to the labor force in October, up from one million a year earlier. These persons wanted and were available for work and had looked for a job sometime in the prior 12 months, but were not counted as unemployed because they had not actively searched in the four weeks preceding the survey.

The number of discouraged workers was 330,000 in October, up by 100,000 from a year earlier.

Senator Corzine. All right.

Ms. Orr. Of course, with discouraged workers, they are not looking because they think that no job is available.

Senator Corzine. In light of those statistics, do you have any comments on unemployment duration? One of the debates is about whether we should extend the term of unemployment insurance. It is lengthy is indicative of those kinds of needs.

Mr. Rones. The duration rates don't necessarily behave the way the other data do. We believe that is because early in a downturn in the labor market, you get a lot of the newly jobless people coming into unemployment. All of those people being laid off have short duration, so the average will tend to go down early on.

So you have two things going on. You have an increase in the flow of people coming into unemployment now, and it is compounded by the fact that it is harder to leave unemployment because the job market is so weak. So we have actually seen increases in the short-term unemployment and the long-term unemployment at the same time.

And if you look at just the average measures, which I tend to not like to do for this reason, they look like they are not moving very much.

Senator Corzine. Could you talk just a bit, little bit, about this health care issue? Since I have been here for six or seven months, each month we have always tended to see increases in health care workers.

Ms. Orr. You would presume that there was no reason that that would particularly stop in the current circumstances. In fact, after we began some of the anxieties with regard to bioterrorism, maybe it would be increasing. I was surprised actually to see either those numbers are flat or they actually decreased a bit in the service sector.

In health services we had a modest employment increase of about 14- or 15,000 between September and October. That was about half the rate of growth that we have seen in health care earlier in the year. We know that health care has been experiencing a lot of occupational shortages.

Senator Corzine. I appreciate it.

Representative Saxton. Well, thank you very much, Senator. Do you have anything further?

Senator Reed. If I may ask just one or two additional questions.

Do your statistics reflect the concentration of unemployment through the country? It seems, for example, that we have been talking about very big increases in minority unemployment, in youthful unemployment, in blue collar unemployment, which would suggest to me, and I wonder if you could help me clarify this, that impact is going to be found in urban settings, and perhaps it is focused in some regions and other regions are escaping this. Do you have any sort of regional feel for the data?

Ms. Orr. We produce, as you probably know, data on employment and unemployment for all of the major metropolitan areas in the country, for counties as well as data for states. That data that we have for the states and areas right now is for the month of September, so we are not capturing the most current kind of information as yet in our state and local data.

Senator Reed. Does that data reveal trends already prior to September 11, or is it simply evenly distributed across the country?

Ms. Orr. It really doesn't capture effects of September 11, although unemployment is not the same or employment growth is not the same across all states. For example, there are a number of the Midwestern states where there are lots of manufacturing jobs, and unemployment there has risen. New York City's unemployment rate went from 5.8 to 6.2 from August to September.

So we do have a lot of data that gives us insight about what is going on on a state and local basis.

Senator Reed. Let me just amplify a point to wrap this up. In terms of this issue, at some point you have data that will suggest differences in unemployment growth around the country. Is that—

Ms. Orr. We have it right now. We simply don't have it so that it includes the month of October.

Do you want to share some information from our releases, Mr. Rones?

Mr. Rones. If you look at the data through September and look at the regions around the country where we have had the biggest increases in unemployment, let's say over the year preceding September, New England had the largest over-the-year unemployment increase, which was more than a percentage point.

Other areas that have increased nearly that much are the East North-central. North Carolina, I would note, has had substantial increases

in unemployment. The South Atlantic and Mountain divisions have seen their unemployment rate rise by nearly a percentage point.

Senator Reed. Mr. Chairman, thank you.

One final point is that if you look at these statistics, the impact seems to be low-wage or middle-income wage workers, high minority workers. Not only is it incumbent upon us to come up with a strategy to help them, but also the immediate impact would be a significant increase in demand for social services at the state and local level since these are typically the types of workers who qualify based on income levels and who need these services. So we are looking at that impact not only at the national level, but each state and locality. Thank you.

Representative Saxton. Thank you.

I would just like to thank the Members for participating this morning and thank the Commissioner for giving us the opportunity to glean from the statistics that you bring us. Perhaps it is worthwhile to say at this point that the reason that this process takes place is so that we can understand where the economy is moving.

And as my three colleagues and I have tried to point out, there is a trend in the process here that we need to be very concerned about and begin to tailor our policy, programs of one kind or another to try to do what the federal government can to offset this very disturbing and negative trend. As Senator Bennett pointed out, we would like it to be shorter rather than longer. As Senator Reed pointed out, there are folks on the lower end of the economic scale who we need to be concerned about, and there are a number of ways that we can address these questions.

Recently the House passed an economic stimulus package, which was patterned after an economic stimulus package that passed in 1963, during the term of John Kennedy, which he spearheaded to try to stimulate economic growth by reducing taxes, and, in effect, today offset some of the so-called security taxes that I keep talking about.

We can also rely on our friends over at the Fed, who I hope on Tuesday will continue the easing policy that they have demonstrated over the past seven or eight months. We are hoping that on Tuesday we will see an additional easing which will result in a 25 or 50 basis point reduction in short-term rates. And as was articulated by Senator Reed, I suspect that by the time this economic package works its way through the House and gets to the President's desk, there will be some additional short-term help, if you will, for some folks that need it most.

And we thank you for helping us to understand the situation in which the economy finds itself, and having different opinions perhaps to one extent, or what we will try to put together – that is individuals with different opinions, we will try to put together an economic stimulus package that will be good for the American economy and the American people.

Thank you for helping us with this. We appreciate and we look forward to seeing you in the months ahead.

[Whereupon, at 10:35 a.m., the Committee was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

I would like to welcome Acting Commissioner Orr before the Joint Economic Committee to testify on the October employment situation.

The employment data released today are the first to reflect the effects of the September 11 terrorist attacks. Payroll employment declined by 415,000, with job losses posted throughout the private sector. Factory employment declined for the 15th month in a row. According to the separate household survey, the unemployment rate increased half a percentage point to 5.4 percent.

The economic effects of the events of September 11 will aggravate an already weak economic situation. Although the resilience of the American people and economy has been very encouraging, the attacks have taken their toll, deepening the slowdown. A variety of economic statistics confirm that the economic slowdown that began in the middle of 2000 continues.

Earlier this week, the Commerce Department reported that GDP declined slightly in the third quarter of 2001. This shrinkage of the economy is a matter for concern, even if the decline was less than many economists had expected. A review of the GDP accounts shows that in recent quarters the fall of investment has been a major negative force on the economy, a fact that policymakers should consider in addressing the need for economic stimulus. The GDP report confirms the weakness apparent in most other economic data.

As I pointed out in September, one result of the terrorist attacks will be new spending on security that will not increase the quantity or quality of production. Firms will have to increase spending on security personnel, sophisticated security equipment, fortification of buildings and facilities, and other related expenditures.

These new expenses will have economic effects similar to the imposition of a "security tax" on an already vulnerable economy. The logical policy response is for changes in tax policy to address this problem with an offsetting tax reduction. For example, faster write-offs for security and other investments would offset at least some of the new security expenses and also address the bias in the income tax system against investment.

As Chairman Greenspan recently suggested before this Committee, tax incentives for capital investment are among the most effective form of fiscal stimulus. Short-term, temporary tax relief will not be effective because taxpayers know that it is not a permanent improvement in their incomes. Effective tax stimulus would improve incentives to work, save and invest by reducing the tax penalties for these activities. Some measure of relief is needed for individuals and firms burdened by the uncertainty and expenses of the new security situation.

It is my view that the weakness in business and consumer spending can be best addressed through monetary policy. An aggressive cut in the federal funds rate by the Federal Reserve this Tuesday is the best policy action that could be taken to bolster the demand side of the economy.

**PREPARED STATEMENT OF
SENATOR JACK REED, VICE CHAIRMAN**

Thank you, Acting Commissioner Orr, for coming to testify before us today. The Bureau of Labor Statistics' measures of unemployment and job loss for October will help us to understand how the economy is currently performing.

Economic conditions appear to be deteriorating. Earlier this week, we learned that GDP fell 0.4 percent during the third quarter. Yesterday we learned that private wages and salaries fell in September, the second monthly decline in a row. Factory operating rates are at their lowest levels in two decades and, today, you report that unemployment has risen to 5.4 percent.

Help is needed. We must craft a fiscal stimulus package that can spur the economy into recovery quickly while not undermining fiscal discipline over the long run.

History has shown that the key to achieving a rapid recovery is to bolster family incomes, something that the stimulus package passed by the house is unlikely to achieve. Marginal incentives for businesses to boost their capital spending will mean little to the economy when cash-strapped households cut their spending, causing further curtailments in investment.

Instead, we should direct the stimulus towards those Americans who are most vulnerable to the economic slowdown. We should help lower-income working Americans who pay payroll taxes, yet received no rebate earlier this year. We should broaden unemployment insurance coverage so that people receive enough to cover their basic needs. And we should help the newly unemployed keep their health insurance by subsidizing premiums.

The foundations of our economy are strong, and our people and businesses resilient. The decline in GDP was less than expected. In order to shore up the economy's weaknesses, we need policies that are temporary, immediate, and targeted to those people and businesses which will best spark our economy's engine.